



# ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson  
Director

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, March 19, 2010  
8:30 A.M., MST

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:31 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair  
Mr. Tom Connelly, Vice-chair (via teleconference)  
Mr. Chris Harris  
Mr. Jim McLaughlin  
Dr. Keith Meredith  
Mr. Michael Townsend  
Mr. Larry Trachtenberg (arrived at 9:12 a.m.)  
Mr. Steve Zeman

Absent: Mr. Jaime Gutierrez

A quorum was present for the purpose of conducting business.

### 2. Approval of the Minutes of the February 18, 2010 Special Meeting of the ASRS Board and the February 19, 2010 Regular Meetings of the ASRS Board

**Motion:** Mr. Steve Zeman moved to approve the minutes of the February 18, 2010 Special Meeting of the ASRS Board and the February 19, 2010 Regular Meetings of the ASRS Board.

Mr. Chris Harris seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

### 3. Presentation Regarding PRIDE Award for Professionalism

Mr. Paul Matson, Director, and Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, presented the PRIDE Award for Professionalism to Mr. Russ Levine, Budget Manager; Ms. Kristiana Zeller, Records Management Manager; and Ms. Tracy Darmer, Human Resource Analyst. They were nominated by their peers because they exemplify the following PRIDE qualities of professionalism: *"I know the importance of leaving everyone with a good impression of the ASRS. I am honest, trustworthy, courteous and respectful, even when faced with adversity. I have the knowledge, skills and abilities necessary to do my job well."*

#### 4. Presentation, Discussion and Appropriate Action Regarding the 2010 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Sorensen addressed the Board regarding the 2010 Legislative Session. Ms. Sorensen gave a general update highlighting bills of interest. Ms. Sorensen said the Legislature adjourned the Special Session on the State budget this week and there are three more weeks of bill hearings in the Committees. She said she anticipates that ASRS bills will make good progress. She noted a correction to the bill tracker distributed at the meeting: Mr. David Byers' nomination as an ASRS Board member was passed by the Senate Government Institutions Committee on March 18, 2010, with a recommendation that the full Senate approve his nomination.

#### 5. Presentation, Discussion and Appropriate Action Regarding the ASRS Total Fund Performance Review for the Period Ending 12/31/09

Mr. Gary Dokes, Chief Investment Officer, Mr. Allan Martin, Managing Partner, New England Pension Consultants (NEPC), addressed the Board regarding the Total Fund Performance Overview for the period ending December 31, 2009, highlighting specific areas of interest and concern.

Mr. Larry Trachtenberg arrived.

The Total Fund Performance for the period ending December 31, 2009 is:

	Quarter	6 months	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
<b>Total Fund<sup>1</sup></b>	4.0%	17.9%	<b>22.2%</b>	<b>-1.6%</b>	3.0%	2.7%	9.9%
<b>SAA Benchmark*</b>	3.6%	16.8%	<b>22.5%</b>	<b>-1.3%</b>	3.1%	2.2%	9.7%
<b>Excess Return</b>	0.4%	1.1%	<b>-0.3%</b>	<b>-0.3%</b>	<b>-0.1%</b>	0.5%	0.2%

##### Policy History:

- 7/1/75 – 12/31/79 – 40% S&P 500/60% Barclays Capital Aggregate
- 1/1/80 – 12/31/83 – 50% S&P 500/50% Barclays Capital Aggregate
- 1/1/84 – 12/31/91 – 60% S&P 500/40% Barclays Capital Aggregate
- 1/1/92 – 12/31/94 – 50% S&P 500/40% Barclays Capital Aggregate/10% MSCI EAFE
- 1/1/95 – 6/30/97 – 45% S&P 500/40% Barclays Capital Aggregate/15% MSCI EAFE
- 7/1/97 – 12/31/99 – 50% S&P 500/35% Barclays Capital Aggregate/15% MSCI EAFE
- 1/1/00 – 9/30/03 – 53% S&P 500/30% Barclays Capital Aggregate/17% MSCI EAFE
- 10/1/03 – 12/31/06 – 53% S&P 500/26% Barclays Capital Aggregate/15% MSCI EAFE/ACWI ex-U.S./6% NCREIF Property Index + 100 bps (lagged one quarter)
- 1/1/07 – 10/31/2009 – 31% S&P 500/7% S&P 400/7% S&P 600/26% Barclays Capital Aggregate/18% MSCI ACWI ex-U.S./6% NCREIF Property Index + 100 bps (lagged one quarter)/5% Russell 3000 + 300 bps
- 11/1/2009 – present – 28% S&P 500/6% S&P 400/6% S&P 600/24% Barclays Capital Aggregate/2% Barclays Capital High Yield/13% MSCI EAFE/2% MSCI EAFE Small Cap/3% MSCI Emerging Markets/6% NCREIF Property Index + 100 bps (lagged one quarter)/7% Russell 3000 + 300 bps/3% Commodities<sup>2</sup>

\*Interim Benchmark (current): 35% S&P 500, 7% S&P 400, 7% S&P 600, 27% Barclays Capital Aggregate, 19% MSCI ACWI ex-U.S., 4% NCREIF Property Index + 100 bps (lagged one quarter), and 1% Russell 3000 + 300 bps

Note: Interim Benchmark incorporates a proration of 2% real estate and 6% private equity

#### 6. Presentation, Discussion and Appropriate Action Regarding the U.S. Equity Program Review

Mr. Gary Dokes, Chief Investment Officer, Mr. Dave Underwood, Portfolio Manager, and Mr. Martin addressed the Board regarding the U.S. Equity asset class reporting for quarter ending December

31, 2009. Mr. Dokes noted that as of December 31, 2009, the total market value of the ASRS U.S. Equity asset class, excluding Global Tactical Asset Allocation (GTAA), was \$11.1 billion, or approximately 46% of the ASRS Total Fund with 73% of the assets managed passively.

The ASRS U.S. Equity Asset Class outperformed its custom benchmark for calendar year 2009 primarily as the result of favorable performance in large- and small-cap, a reversal from calendar year 2008. Inception-to-date performance for ASRS U.S. Equity Asset Class closely matches that of its custom benchmark.

## **7. Director's Report**

Mr. Matson presented the Director's Report. He pointed out that call volume dramatically increased over the past six months, but has begun to return to normal levels in the past month. However, that could change, with the possibility of State employee furloughs and budget cuts, including teachers reconsidering retirement this summer.

Mr. Matson noted multiple thousands of retirees on the Arizona Department of Administration health insurance program may call the ASRS regarding health insurance, especially if a bill relating to this passes. Dr. Keith Meredith inquired about this. Mr. Ray Thomas, Assistant Director Member Services, said the calls received so far have been general questions. He explained Pima County recently ended their health insurance coverage for retirees and Mr. Klein has drafted an informational document to give them. Ms. Sorensen commented that various State employers are considering voluntarily ending their health insurance coverage for retirees. This would also impact the amount of calls the ASRS receives.

Mr. Matson presented the Budget Report and explained he is considering the possible impact of the proposed 2.75% performance pay cut and the proposed furlough days, including one day in FY 2010, six days in FY 2011 and FY2012. He said they would amount to an approximate 5% pay cut.

Mr. Matson pointed out two delinquent employers listed are now current: TAG Elementary Inc, and Green Valley Domestic Water Improvement.

Mr. Matson said cash flow is being monitored closely. He noted there is a modestly higher negative external cash flow compared to internal cash flow because private equity and real estate capital calls have decreased. He said there is nothing of concern at this time, but it is still prudent to monitor the ASRS cash flow position.

Mr. Matson presented the results of the State Employee Survey, explaining the ASRS rated higher than other agencies in all twenty categories, especially in the employee rating of their workplace. He said the survey showed 86% of employees give the ASRS positive ratings as a workplace. He commended all staff for helping to create such a positive work environment.

## **8. Possible Presentation Regarding Board Committee Updates**

Mr. Steve Zeman, Vice-chair, External Affairs Committee (EAC), said the next EAC meeting will take place April 9, 2010 at 10:00 A.M.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place April 12, 2010 at 2:30 P.M.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place April 22, 2010 at 10:30 A.M.

## **9. New Agenda Items**

There were no requests for new agenda items.

## **10. Call to the Public**

No members of the public requested to speak.

## **11. The next ASRS Regular Board meeting is scheduled for Friday, April 16, 2010, at 8:30 A.M., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

## **12. Presentation, Discussion and Appropriate Action with Respect to the 2009 Review of the Director of the ASRS**

**Motion:** Mr. Michael Townsend moved the Board adjourn to Executive Session.

Mr. Steve Zeman seconded the motion.

Mr. Byers said the Executive Session would take place in the 14<sup>th</sup> floor conference room in about 10 minutes and would adjourn from there.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Board recessed from the Regular Meeting at 10:32 A.M., to relocate to the 14<sup>th</sup> floor.

The Board convened to Executive Session at 10:47 A.M.

The Board returned to the Regular Meeting at 12:06 P.M.

Mr. Byers commended the Director on his excellent performance over the past year. He said the Board would like to reappoint Mr. Matson as Director for another year, and that they will discuss this further at a future Board Meeting.

## **13. Adjournment of the ASRS Board**

Mr. Byers adjourned the Board meeting at 12:07 P.M.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Hanneman  
Board Secretary

Date

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Paul Matson  
Director

Date